

## RATE DESIGN

**What is rate design?** Rate design is simply deciding how to price your product. Pricing for electricity for regulated, public utilities in Texas is based on apportioning the costs based on an economic analysis among the different types of customers such as residential, industrial and commercial. Once the economic analysis<sup>1</sup> calculates the costs to serve residential customers, a rate specialist designs a rate, a price to charge residential customers. Rate design has several objectives: to be equitable and fair, to be easily understood by the consumer, to recover the costs to serve residential customers, to be based on costs<sup>2</sup>, to send a pricing signal about future costs, to encourage conservation, energy renewal, and carbon reduction, and to have essential electric service affordable. Some of the objectives are competing making the final decision one based on public policy considerations.

**Is AE proposing new residential rate designs?** Yes, AE is proposing a substantial change in COA's current residential rate design. There is a steep price increase for essential electric services, and the addition of open ended pricing components<sup>3</sup> whose purpose is to focus in on one small part of electric operations without determining whether AE is making more than enough money overall to fund its electric operations. AE is proposing this new rate design arguing energy efficiency measures have made revenue unstable based on the current rate design; AE further argues that its proposed rate design is mirroring the unbundled retail electric market where the production, transmission, and selling of electricity is separated into separate entities. Lastly, AE argues that the proposed rate design recognizes the fixed cost nature of electric operations.

**Hasn't energy efficiency created a need to change AE's rate design for its residential customers?** Not at this time. *First*, AE argues that energy efficiency has made AE's revenues less stable. This argument is a non sequitur. The fact that AE has not had a rate case in sixteen years negates this argument. AE's operating revenues are cyclical in nature, much like farming and retail. Utility operating revenues have never been assumed to have a year to year and season to season consistency with little variance. In general, utility rates are set to ensure sufficient revenues over the course of several years, and not just one. The rates set in 1994 have allowed AE to have revenues sufficient enough to make a \$500 million dollar capital investment funded entirely with cash. In addition, AE is anticipating a huge increase in

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<sup>1</sup> An economic analysis that is performed is not an analysis that provides scientific certainty. It depends upon many assumptions that have for each assumption used, opposing or alternative assumptions based on economic and public policy considerations. For ratemaking purposes this economic analysis is called a "cost of service study."

<sup>2</sup> The "costs" to serve residential customers vary widely depending upon the economic analysis performed. Usually the range is a plus or minus 10 to 15 per cent.

<sup>3</sup> AE is recommending a power cost adjustment factor, a regulatory charge and a community benefit charge.

residential electricity usage brought on by the advent of electric cars in response to green environment initiatives. So any concern about insignificant residential sales caused by energy efficiency efforts will be more than offset by this increased usage. There may be some renewable energy programs such as solar power that should be considered on separate rate schedules. This is because of the potential for a dynamic shift in electric usage caused by the emergence of a new type of energy user. AE and other utilities have historically designed rates for such unique usage situations. Examples are interruptible rates for industrial customers, all-electric rates for residential customers, electric water heater rates for residential customers, and stand by rates for industrial customers. In this cost of service study AE is proposing special discount rates for electric cars<sup>4</sup>. Creating a separate rate for electric cars as well as rates for direct generation, electric customers are better rate design solutions than AE's current residential rate proposal.

*Second*, AE argues that a new rate design is needed to address the unbundling nature of the retail electric industry. AE's argument does not mirror the reality of the marketplace. Yes, the transmission and distribution utilities have been, under the guise of unbundling, seeking approval to drastically increase their customer charges. The Public Utility Commission of Texas, the state agency that regulates utilities in Texas, has soundly rejected these attempts. The retail electric providers (REP), the resellers of retail electricity to residential and commercial customers in the deregulated Texas retail electric market, in general maintain a flat rate pricing. This means, the REPs aren't even charging a customer charge.<sup>5</sup> Attached to this comment are sample REP pricings as well as a summary of transmission and distribution utility prices provided by AE's rate consultant and a tariff sheet for a fully integrated private, investor-owned public utility in Texas.

*Third*, AE argues that certain costs are fixed and shouldn't be recovered using variable pricing. This argument is a reworking of an old cost of service method called the minimum customer distribution system that has been recently and is being currently rejected by the Public Utility Commission. The Public Utility Commission has rejected the argument that these costs vary by customer. Yet, AE's proposed rate design implicitly contains this assumption. AE recognizes that the distribution system costs were caused by the usage characteristics of the various customer classes.<sup>6</sup> Even though AE allocates distribution costs between the customer

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<sup>4</sup> We have concerns about the level of discount given the huge savings electric cars would have in relation to gas consumption costs.

<sup>5</sup> Many times, the REPs charge a "minimum bill" if usage for the month doesn't reach a certain level. This minimum bill generally acts as a customer charge.

<sup>6</sup> See White Paper No. 3, p. 35, "Distributions systems are designed and built on the demand of the areas they serve. . . .For instance, a service transformer must be built to serve the highest peak of the individual customer or customers it serves." Demand means how much energy a utility has to provide at a certain time(s) of the

classes based on usage, AE simply fails in its proposed rate design to bring this type of cost allocation analysis down into the residential customer class. Instead it designs the rates based on number of customers and ups the residential fixed customers charges (made up on two components—customer charge and wire charge) from \$6.00 to \$33.00. If AE did bring its cost of allocation analysis down to the residential customer class level, AE would design rates based on usage, not number of customers. Unlike the proposed residential rates, the rates AE currently charges its residential customers are based on usage.

**What is a customer charge?** Historically and currently COA and other Texas utilities have used customer charges in their pricing structures to recover the variable cost of serving an additional residential customer. The type of costs typically recovered in a customer charge are billing and collecting, meter reading, meters, and service drops to the resident's home. These costs are incurred because of an additional residential customer is added as an AE utility customer. AE is proposing to add additional costs that don't vary with the addition of one customer. For instance, electric poles, transformers, and distribution lines are not increased when a renter calls AE to start electric service or if a garage apartment is added to an electric customer's lot. These costs are already there and do not increase because a new customer has entered the system.

**What is a wires charge?** A wires charge is an attempt in the electric industry to change how the distribution system is priced out. The wires charge represents a per customer unit charge for the utility's distribution system. While AE relies upon usage to allocate this cost among the customer classes, it prices this cost to residential customers on a per capita basis assuming each residential customer's usage characteristic is identical to every other residential customer. This is not the case. In the past utilities have readily acknowledged that some part of the distribution system costs has been incurred because of the usage characteristics of the customers. So, with that acknowledgement, utilities had created a fictional "minimum distribution system" carving a certain amount of costs out of the distribution system costs that supposedly had a direct cost relationship to the number of customers on the system. The remainder of the distribution system costs was allocated on usage.<sup>3</sup> The Texas Public Utility Commission, the state agency that oversees electric utilities in Texas, has soundly rejected attempts in recent years to allocate any of the distribution system costs—including any fictional "minimum distribution system" based on the number of customers. AE is proposing to design its rates to recover distribution costs assuming that usage characteristics within the residential class are irrelevant. This is contrary to recent PUC regulatory action. It is also contrary to cost responsibility underlying the reasons utilities incurred these costs.

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operating year. For instance, the term "highest peak" in the quote above means when the residential class is using the most electricity over a single time period. Electric demand is measured in megawatts of electricity used.

**What is an energy charge?** An energy charge is a confusing term. Some utilities have and may still use this term for recovering their fuel costs. Other utilities use this term to recover their operational expenses on a cents-per kilowatt hour basis for residential customers. Another name for this charge is base rates. This charge is reflecting cost responsibility based on usage; that is, the utility recovers costs from this energy charge based on how much you use.

**Why should we price on usage?** Pricing on usage is a fair and equitable way to distribute the costs of serving residential customers. Historically and currently, usage characteristics have been used to allocate the fixed costs of the utility. In this case, the AE consultant has looked at three different ways to allocate production fixed costs among the various customer classes, and each methodology is based on usage characteristics of the various customer classes. Transmission costs are allocated among the customer classes based on usage. Usage characteristics reveal the underlying cost responsibility for building the utility system—both as to its size and to the type and numbers of production plants, transformers and other parts of the utility system. Basically, pricing on usage is based on the doctrine that one should pay in relation to the use one makes of the system, implicitly recognizing that usage, not number of customers, has caused costs to be incurred and why certain amounts of costs are shifted to the residential customer class for recovery under a cost of service analysis.

AE is proposing a radical change based on a misconception of the utility system. AE's capital investments, once made, are fixed costs. But those costs were created in response to AE's best guess of how much electricity would need to be provided to its customers. Pricing a fixed cost based on the number of customers disconnects a utility from why it built the plant system—to meet its various customers assumed usage. But this is what AE's consultant is doing in creating a "wires charge". The consultant's argument could be expanded to power plants, but even the consultant acknowledges that cost responsibility should be recovered in usage charges and not fixed charges.

**Why should we keep the current residential rate design?** With the addition of two new residential rate designs for electric cars and for self-generation residential customers, the current rate design should be retained. The current residential rate design promotes conservation, is easy to understand, provides a reduced rate for essential household usage, and reflects the usage cost characteristics within the residential customer class which, when aggregated at a customer class level, are used to assign utility costs to the residential customer class. In short, the current rate design meets the objectives for rate design set out above.

**What is a surcharge?** A surcharge is an additional charge that reflects costs that change often. A classic surcharge is a fuel factor that is utilized to track the costs of the utility's fuel purchases which rise and fall often within a year. AE is proposing to increase not only the number of

surcharges it imposes on residential customers, but to increase the type of costs to be recovered in the current ones.

Does AE need surcharges? No, AE doesn't even need a fuel surcharge. AE does not provide the additional regulatory scrutiny that goes with surcharges. Surcharges are considered temporary rates subject to true-up. AE has not held any reconciliation proceedings to determine whether the surcharge brought in more revenue than estimated or less, or whether the expenses incurred related to the surcharge were reasonable and necessary. Instead, AE has treated surcharges as rates that are changed going forward without any scrutiny over past expenses. If surcharges continue to be a part of AE's residential rates, then reconciliation proceedings should occur.

# Austin Energy Rate Review White Paper #4: Residential Rate Structures

Prepared for:  
Austin Energy Rate Review  
Public Involvement Committee

Released: March 30, 2011



An SAIC Company



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#### Public Involvement Committee Meeting #4

Based on these results, the total fixed costs to serve a residential customer are \$57.81 per month during the summer season, and \$31.61 during winter, which is the sum of generation, transmission and distribution demand-related costs, and customer-related costs. In rate design these costs can be recovered through various charges on the bills which will be discussed later in this document. These unit costs are determined by the cost of service analysis. This illustrates the actual cost to serve residential customers by cost category and the appropriate cost recovery mechanism (i.e. monthly charge, demand rate in kW, or energy rate in kWh) assuming there are no limitations in billing those charges or other policy considerations that may lead a utility to differ from that method. For example, the production and transmission demand-related unit costs in Table 1 are represented in \$/kW, a demand rate. However, utilities often face limitations with charging residential customers a demand rate because certain metering technologies and billing systems must be implemented. For this reason, these costs are often recovered in an energy rate.

Later in this paper, AE's fixed costs are broken out into charges for customer-related costs and distribution costs only which represent a total of about \$33 a month per residential customer. It is important to understand that any proposed increases in fixed monthly charges represent an adjustment in the residential rate structure in order to fully recover fixed costs through a fixed cost recovery mechanism rather than a variable cost recovery mechanism. Fixed costs not currently being recovered through a monthly charge are being recovered in AE's base energy rate. If these costs are not fully recovered in a fixed monthly charge they must be recovered in the base energy rate. Therefore, any increase in fixed monthly charges is offset by an appropriate reduction in the amount recovered in the energy rate.

Rate design also considers the strategic objectives and ratemaking principles of the utility which may create some acceptable deviations from cost of service. For example, AE places a strong emphasis on encouraging energy conservation (AE Rate Design Principle 5) as well as providing a discount to low-income customers (AE Rate Design Principle 7). Adjustments made during rate design will determine how close to actual cost of service customers pay for electric service.

Using the cost of service study results, a cost of service curve, or cost curve, can be constructed that reflects the cost of serving individual customers within each customer class depending on their level of monthly electricity usage. A cost curve for the Residential customer class is shown in Figure 3. The grey bars represent the bill frequency results for residential customers previously included in White Paper #2B – *Austin Energy Customer Classes*. These results show the number of bills over the course of Fiscal Year 2009 for various ranges of monthly electricity usage represented on the x-axis. 250 kWh blocks (i.e. 1-250 kWh) are represented in Figure 3 through 2,000 kWh at which point the blocks increase to 500 kWh blocks (i.e. 2,001 – 2,500 kWh) until the category of all bills greater than 4,000 kWh. The red cost curve shows the all-in unbundled cost curve for customers depending on the level of electricity usage. Results are shown as cost per kWh of monthly electricity consumed.

## Residential Rate Structures

Figure 6  
Transmission and Distribution Utility Rates in Deregulated Markets in Texas

Last update: March 1, 2011

## ERCOT TDUs

| RESIDENTIAL CUSTOMERS--NON-BASE RATE CHARGES |   |                             |                             |                             |                             |                             |
|--|---|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| Line   |   | Occur                       | Center Point                | ATP Central                 | ATP North                   | INMP                        |
|  | <b>Kilowatt-hour charges</b>                                | \$5 per<br>per kWh 1000 kWh | \$5 per<br>per kWh 1000 kWh | \$5 per<br>per kWh 1000 kWh | \$5 per<br>per kWh 1000 kWh | \$5 per<br>per kWh 1000 kWh |
| 1  | Standard Costs (all securitized except TNMP, which has CTC) | 0.001350 \$1.35             | 0.003076 \$3.08             | 0.011154 \$11.15            |                             | 0.002080 \$3.08             |
| 2  | Storm Costs (CTP--securitized; TNMP--nonsecuritized)        | 0.000950 \$0.95             | 0.001753 \$1.75             | 0.001576 \$1.58             | 0.001878 \$1.88             | 0.001040 \$1.04             |
| 3  | Transmission Cost Recovery Factor (TCRF)                    | 0.000655 \$0.66             | 0.000655 \$0.66             | 0.000662 \$0.66             | 0.000660 \$0.66             | 0.000654 \$0.65             |
| 4  | System Benefit Fund   | 0.000169 \$0.17             | 0.000049 \$0.05             | 0.000182 \$0.18             |                             |                             |
| 5  | Nuclear Deconv. Charges                                     | 0.000036 \$0.01             |                             | 0.000084 \$0.08             | 0.000067 \$0.07             | 0.000204 \$0.20             |
| 6  | Rate Case Expenses  |                             |                             | 0.000733 \$0.73             | 0.000327 \$0.33             |                             |
| 7  | Energy Efficiency Cost Recovery                             |                             | -0.000642 -0.642            |                             |                             |                             |
| 8  | ADITT Credit  |                             | 0.000789 \$8.79             | 0.014391 \$14.39            | 0.002932 \$2.93             | 0.011438 \$11.43            |
| 9  | Total Non-Base-Rate kWh Charges                             | 0.003360 \$3.36             |                             |                             |                             |                             |
|  | <b>Monthly Charges</b>                                      | \$ per month                | \$ per month                | \$ per month                | \$ per month                | \$ per month                |
| 10   | Advanced Meter Charges                                      | \$2.19                      | \$3.24                      | \$3.15                      | \$3.15                      |                             |
| 11   | Energy Efficiency Cost Recovery                             | \$0.91                      | \$0.38                      |                             |                             | \$0.71                      |
| 12   | Total Non-Base-Rate Monthly Charges                         | \$3.10                      | \$3.62                      | \$3.15                      | \$3.15                      | \$0.71                      |
| 13   | Total--kWh charges plus monthly charges--Non-base           | \$6.46                      | \$12.41                     | \$17.54                     | \$6.08                      | \$12.14                     |

Subst. R 251810(K) states that "The commission may approve an energy charge or a monthly customer charge for the TCU."

In pending FPL No. 14706, TSBP has proposed an initial monthly AMS charge of \$4.80.

## RESIDENTIAL CUSTOMERS--BASE RATE CHARGES

|   |  |                                 |  |  |   |   |
|---|--|---------------------------------|--|--|---|---|
| 14  | Monthly Customer/Meter Charges                                 | Occur                           | Center Point                               | AFP Central                                | AFP North                                 | INMP  |
|   |  | \$ per month<br>\$2.77          | \$ per month<br>\$3.78                     | \$ per month<br>\$6.74                     | \$ per month<br>\$8.18                    | \$ per month<br>\$5.25                      |
| 15  | Kilowatt-hour charges  | \$5 per<br>1000 kWh<br>0.021662 | \$5 per<br>1000 kWh<br>\$22.99<br>0.022990 | per kWh<br>1000 kWh<br>\$19.11<br>0.019105 | per kWh<br>1000 kWh<br>\$24.81<br>0.02481 | per kWh<br>1000 kWh<br>\$17.347<br>0.017347 |
| 16  | Total--kWh charges plus monthly charges--Base Rate             | \$26.41                         | \$26.77                                    | \$25.85                                    | \$32.99                                   | \$22.60                                     |
| RESIDENTIAL--GENERAL MONTHLY BILL AMOUNT PER 1000 kWh |  |                                 |  |  |   |   |
| 17  | Subtotal kWh charges--1000 kWh (lines 9 + 15)                  | Occur                           | Center Point                               | AFP Central                                | AFP North                                 | INMP  |
| 18  | Subtotal Monthly Customer charges (lines 12 + 14)              | \$27.02<br>\$5.87               | \$31.78<br>\$7.40                          | \$31.50<br>\$9.60                          | \$37.74<br>\$11.33                        | \$28.78<br>\$5.96                           |
| 19  | Grand Total--All kWh charges + utility charges (lines 17 + 18) | \$32.89                         | \$39.18                                    | \$41.10                                    | \$49.07                                   | \$34.74                                     |

**Electricity Facts Label (EFL)**  
**TXU Energy Retail Company LLC**  
**TXU Energy Texas Choice 24<sup>SM</sup>**  
**Service Area - Oncor Electric Delivery**  
**January 26, 2011**

|  |   |         |   |                                  |                     |         |          |          |                       |       |       |       |
|--|---|---------|---|----------------------------------|---------------------|---------|----------|----------|-----------------------|-------|-------|-------|
| Electricity Price  | <table><tr><td>Average Monthly Use</td><td>500 kWh</td><td>1000 kWh</td><td>2000 kWh</td></tr><tr><td>Average Price per kWh</td><td>12.2¢</td><td>11.4¢</td><td>10.9¢</td></tr></table>   |         |   |                                  | Average Monthly Use | 500 kWh | 1000 kWh | 2000 kWh | Average Price per kWh | 12.2¢ | 11.4¢ | 10.9¢ |
|  | Average Monthly Use   | 500 kWh | 1000 kWh  | 2000 kWh                         |                     |         |          |          |                       |       |       |       |
|  | Average Price per kWh   | 12.2¢   | 11.4¢   | 10.9¢                            |                     |         |          |          |                       |       |       |       |
|  | Your average price per kWh for electric service will depend on your usage and the following pricing components:   |         |   |                                  |                     |         |          |          |                       |       |       |       |
|  | Base Charge:  |         | Per Month   |                                  |                     |         |          |          |                       |       |       |       |
| Oncor Advanced Meter Charge*:  |   | \$5.95  |   |                                  |                     |         |          |          |                       |       |       |       |
| Other Key Terms and Questions  | Month(s)  |         | kWh Usage   | Per kWh                          |                     |         |          |          |                       |       |       |       |
|  | All Months  |         | All kWh   | 10.5370¢                         |                     |         |          |          |                       |       |       |       |
|  | Energy Charge:  |         |   |                                  |                     |         |          |          |                       |       |       |       |
|  | This is a fixed rate product.   |         |   |                                  |                     |         |          |          |                       |       |       |       |
|  | Average prices per kWh listed above do not include facility relocation fees ordered by a municipality or other charges that apply only in a part of a Transmission and Distribution Utility (TDU) service area. For information about these charges, including a list of those municipalities for which facility relocation fees may apply, please go to <a href="http://www.txu.com/municipalfees">www.txu.com/municipalfees</a> or call 1-800-242-9113. |         |   |                                  |                     |         |          |          |                       |       |       |       |
| *This is a Public Utility Commission-approved advanced meter system surcharge that is passed through from Oncor Electric Delivery, your local TDU.   |   |         |   |                                  |                     |         |          |          |                       |       |       |       |
| Receive a 3% cash back loyalty reward in the form of a pre-paid cash card based on your eligible usage on this plan. Please visit <a href="http://www.txu.com/plans">www.txu.com/plans</a> for additional details. |   |         |   |                                  |                     |         |          |          |                       |       |       |       |
| Each month you will also be billed all taxes, including sales tax, and reimbursement for the state miscellaneous gross receipts tax as applicable.   |   |         |   |                                  |                     |         |          |          |                       |       |       |       |
| See Terms of Service Agreement for a full listing of fees, deposit policy, and other terms.  |   |         |   |                                  |                     |         |          |          |                       |       |       |       |
| Disclosure Chart   | Type of Product   |         | Fixed Rate  |                                  |                     |         |          |          |                       |       |       |       |
|  | Contract Term   |         | 24 Months   |                                  |                     |         |          |          |                       |       |       |       |
|  | Do I have a termination fee or any fees associated with terminating service?  |         | Yes   | Early Cancellation Fee: \$200.00 |                     |         |          |          |                       |       |       |       |
|  | Can my price change during the contract period?   |         | Yes   |                                  |                     |         |          |          |                       |       |       |       |
|  | If my price can change, how will it change, and by how much?  |         | TXU Energy believes that customers should be fully informed about their price. Your price will not change during the term of this plan except in the limited circumstance of changes made to reflect actual changes in TDU charges; changes to the Electric Reliability Council of Texas or Texas Regional Entity administrative fees charged to loads; or changes resulting from federal, state or local laws that impose new or modified fees or costs that are beyond our control. |                                  |                     |         |          |          |                       |       |       |       |

|  |   |  |
|--|---|--|
| What other fees may I be charged?  | Following is a comprehensive list of our other non-recurring charges applicable to your electricity service that are not included in your price per kWh and may also be charged: Late Payment Penalty - 5% of the past due balance; Insufficient Funds Fee - \$25 fee for each payment not processed; Agent Assist Fee (bill payment) - \$3.95 for each time an agent helps you make a payment; Document Processing Fee - \$2 for each request; Disconnect Recovery Charge - \$20 if payment not made before the date your service is subject to disconnection. We may also pass through non-recurring charges from your TDU. See Terms of Service Agreement, Pricing and Fees Section, for a full description of these fees. |  |
| Is this a pre-pay or pay in advance product?   | No  |  |
| Does the REP purchase excess distributed renewable generation?   | Yes, subject to execution of a surplus power purchase agreement.  |  |
| Renewable Content  | This product is 10% renewable.  |  |
| The statewide average for renewable content is   | 6%  |  |
| TXU Energy Retail Company LLC<br>P.O. Box 650764, Dallas, TX 75265-0764<br>972-791-2888 24 hours<br>1-800-242-9113 24 hours<br>E-Mail Address: txuenergy@txu.com<br>website: txu.com | REP Certificate No. 10004   | Version:<br>ONTEXCH24K<br>January 26, 2011 |
| Additional Details   | v020111   |  |

**Electricity Facts Label**  
**Reliant Energy Retail Services, LLC**  
**Basic Power Flex Plan**  
**Oncor Electric Delivery service area**  
**Issue Date: 03/15/2011**

|                               |   |         |   |          |                      |         |          |          |                        |      |      |      |
|-------------------------------|---|---------|---|----------|----------------------|---------|----------|----------|------------------------|------|------|------|
| Electricity price             | <table><tr><td>Average monthly use:</td><td>500 kWh</td><td>1000 kWh</td><td>2000 kWh</td></tr><tr><td>Average price per kWh:</td><td>7.5¢</td><td>4.9¢</td><td>4.6¢</td></tr></table>  |         |   |          | Average monthly use: | 500 kWh | 1000 kWh | 2000 kWh | Average price per kWh: | 7.5¢ | 4.9¢ | 4.6¢ |
|                               | Average monthly use:  | 500 kWh | 1000 kWh  | 2000 kWh |                      |         |          |          |                        |      |      |      |
|                               | Average price per kWh:  | 7.5¢    | 4.9¢  | 4.6¢     |                      |         |          |          |                        |      |      |      |
|                               | The price you pay each month consists of the Base Charge, Energy Charge, and Oncor Electric Delivery Charges in effect for your monthly billing cycle.  |         |   |          |                      |         |          |          |                        |      |      |      |
|                               | Base Charge: \$9.95 per billing cycle < 800 kWh<br>\$0.00 per billing cycle ≥ 800 kWh   |         |   |          |                      |         |          |          |                        |      |      |      |
| Energy Charge: 1.6¢ per kWh   |   |         |   |          |                      |         |          |          |                        |      |      |      |
| Other Key Terms and questions | Oncor Electric Delivery Charges: \$5.87 per month and 2.7022 ¢ per kWh  |         |   |          |                      |         |          |          |                        |      |      |      |
|                               | Oncor Electric Delivery Charges include all recurring charges from Oncor Electric Delivery passed through without mark-up.  |         |   |          |                      |         |          |          |                        |      |      |      |
|                               | The Base Charge will not be included for each billing cycle in which your usage is 800 kilowatt hours (kWh) or more. Except for price changes allowed by law or regulatory action, this price is the price that will be applied during your first billing cycle; this price may change in subsequent months at the sole discretion of Reliant Energy. The price in effect on the day following the previous meter read date will be applied for subsequent billing cycles. After enrollment, the current price for the product is available by logging into your account at <a href="http://reliant.com/myaccount">reliant.com/myaccount</a> or calling Customer Care at 1-866-222-7100. Please review the historical price of this product available at <a href="http://reliant.com/onc/historicalprices">reliant.com/onc/historicalprices</a> or call 1-866-222-7100. |         |   |          |                      |         |          |          |                        |      |      |      |
| Disclosure Chart              | Type of Product   |         | Variable  |          |                      |         |          |          |                        |      |      |      |
|                               | Contract Term   |         | Month to Month  |          |                      |         |          |          |                        |      |      |      |
|                               | Do I have a termination fee or any fees associated with terminating service?  |         | No  |          |                      |         |          |          |                        |      |      |      |
|                               | Can my price change during the contract period?   |         | Yes   |          |                      |         |          |          |                        |      |      |      |
|                               | If my price can change, how will it change and by how much?   |         | The price applied in the first billing cycle may be different from the price in this EFL if there are changes in TDSP charges; changes to the Electric Reliability Council of Texas or Texas Regional Entity administrative fees charged to loads; or changes resulting from federal, state or local laws or regulatory actions that impose new or modified fees or costs that are outside our control. After the first billing cycle, it can increase or decrease by any amount. |          |                      |         |          |          |                        |      |      |      |
|                               | What other fees may I be charged?   |         | Fees not included in the price above: Returned Payment Charge: \$30; Disconnect Recovery: \$25; Call Center Access fee: \$5.95; Late Payment Penalty: 5% of past due balances. Information on other non-recurring fees is available in the pricing section of your Terms of Service.  |          |                      |         |          |          |                        |      |      |      |
|                               | Is this a pre-pay or pay in advance product?  |         | No  |          |                      |         |          |          |                        |      |      |      |
|                               | Does Reliant Energy purchase excess distributed renewable generation?   |         | Yes   |          |                      |         |          |          |                        |      |      |      |
|                               | Renewable Content   |         | This product is 3% renewable.   |          |                      |         |          |          |                        |      |      |      |
|                               | Statewide average for renewable content   |         | The statewide average for renewable content is 6%.  |          |                      |         |          |          |                        |      |      |      |
|                               | Reliant Energy Residential Services (dba), PO Box 3765, Houston, TX, 77253<br><a href="http://reliant.com">reliant.com</a> , e-mail: <a href="mailto:service@reliant.com">service@reliant.com</a> , phone: 1-866-RELIANT, 24 hours a day / 7 days a week<br>PUCT Certificate Number #10007  |         |   |          |                      |         |          |          |                        |      |      |      |

**Electricity Facts Label**  
**Reliant Energy Retail Services, LLC**  
**Reliant Collegiate Plan<sup>SM</sup>**  
**Oncor Electric Delivery service area**  
**Issue Date: 03/15/2011**

**Electricity  
price**

|                        |         |          |          |
|------------------------|---------|----------|----------|
| Average monthly use:   | 500 kWh | 1000 kWh | 2000 kWh |
| Average price per kWh: | 10.2¢   | 9.9¢     | 9.8¢     |

This price disclosure is an example based on the following prices:

Base Charge: \$0.00 per month  
Energy Charge: 9.6¢ per kWh  
Oncor Surcharges: \$3.10 per month and 0.0000¢ per kWh

*This price disclosure is an example based on average prices - your average price for electricity service will vary according to your usage. The price you pay each month will consist of the Base Charge, Energy Charge, and Transmission and Distribution Surcharges.*

**Other Key  
Terms and  
questions**

*When you enroll on the Reliant Collegiate Plan, Reliant will donate \$25.00 to the college or university of your choice. With the Reliant Collegiate Plan, all U.S. institutions of higher learning listed with FAFSA (FAFSA stands for "Free Application for Federal Student Aid") are eligible for donations. A complete listing of FAFSA registered schools and universities can be found at <http://www.fafsaonline.com/FAFSA-school-codes/>.*

*See Terms of Service statement for full listing of fees, deposit policy, and other terms.*

**Disclosure  
Chart**

|  |  |
|--|--|
| Type of Product  | Fixed Rate   |
| Contract Term  | 12 months  |
| Do I have a termination fee or any fees associated with terminating service? | Yes. \$150. Applies after the due date of the first bill through the end of the contract term. This fee does not apply if the customer moves, and provides a forwarding address and other evidence that may be requested to verify that the customer moved.                                |
| Can my price change during the contract period?                              | Yes  |
| If my price can change, how will it change and by how much?                  | The price can change to reflect actual price changes that are allowed by Public Utility Commission rules due to changes in law or regulatory charges after the Issue Date.   |
| What other fees may I be charged?  | Fees not included in the price above: Returned Payment Charge: \$25; Disconnect Recovery: \$25; Service Processing Fee: up to \$5.95; Late Payment Penalty: 5% of past due balances. Information on other non-recurring fees is available in the pricing section of your Terms of Service. |
| Is this a pre-pay or pay in advance product?                                 | No   |
| Does Reliant Energy purchase excess distributed renewable generation?        | Yes  |
| Renewable Content  | This product is 20% renewable.   |
| Statewide average for renewable content                                      | The statewide average for renewable content is 6%.   |

Reliant Energy Residential Services (dba), PO Box 3765, Houston, TX, 77253  
reliant.com, e-mail: [service@reliant.com](mailto:service@reliant.com), phone: 1-866-RELIANT, 24 hours a day / 7 days a week  
PUCT Certificate Number #10007

| <b>First Choice Power</b><br>you first<br>Electricity Facts Label  |   | <b>First Choice Web Advantage Green 24</b><br>Residential Service – Oncor<br>Service Area<br>Effective 4/1/2011   |                  |
|--|---|---|------------------|
|  | Average monthly use:  | <u>500 kWh</u>  | <u>1,000 kWh</u> |
|  | Average price per kWh:  | 11.8¢   | 11.3¢            |
|  |   |   | 11.1¢            |
| The average price per kWh is an example based on average usage amounts, an electricity price of 10.8¢/kWh and a \$4.95 Retail Electric Provider (REP) base charge.   |   |   |                  |
| <b>Other Fees and Disclosures</b>  | The average price per kWh includes all recurring fees and charges estimated for the delivery of electricity (including but not limited to Transmission and Distribution Utility (TDU) transmission and distribution charges, any existing transition charges, System Benefit Fund fee, Public Utility Commission of Texas (PUCT) Assessment fee, Electric Reliability Council of Texas (ERCOT) System administrative fee, Texas Regional Entity (TRE) administrative fee, and nuclear decommissioning fees and surcharges, as authorized by the PUCT). State and local sales taxes, reimbursement for state miscellaneous gross receipts tax and any additional or nonrecurring TDU or REP charges are not included in the price for electric service and are billed as separate line items on your monthly bill. |   |                  |
|  | You may be subject to a special charge assessed by your local government. Such charges are passed through to you by the TDU on behalf of your local government and are billed as a line item on your monthly bill. Contact information regarding any special charges will be provided on your bill.   |   |                  |
|  | For a complete list of First Choice Power fees, deposit policy, and other terms affecting this price plan, see the Terms of Service (TOS) statement, Version T206-11.   |   |                  |
| <b>Disclosure Chart</b>  | Type of product   | Fixed price plan  |                  |
|  | Term of contract  | 24 months   |                  |
|  | Are there any fees associated with terminating service?   | Early termination fee: \$295.00   |                  |
|  | Can my price change during the term of my contract?   | Yes   |                  |
|  | If my price can change, how will it change and by how much?   | <i>The only circumstances in which this price can change during the contract term are to reflect actual changes in TDU charges; changes to the ERCOT or TRE administrative fees charged to loads; or changes resulting from federal, state or local laws or regulatory actions that impose new or modified fees or costs on First Choice Power that are outside our control. Any pricing change made in these limited circumstances may be made without prior notice.</i> |                  |
|  | What other fees might I be charged?   | See TOS, "Pricing for Electric Service"   |                  |
|  | Is this a pre-pay or pay-in-advance product?  | No  |                  |
|  | Does First Choice Power purchase excess distributed renewable generation?   | No  |                  |
|  | Renewable content   | 100%  |                  |
|  | State-wide average for renewable content  | 6%  |                  |
| First Choice Power Special Purpose, L.P. is certified as a REP by the PUCT, Certificate Number 10008<br>• Corporate Address: 225 E. John Carpenter Freeway, Suite 1600, Irving, TX 75062 • Fax: (866) 436-5048<br>• Customer Care: Toll free (866) 469-2464, Monday - Friday 8 a.m. - 8 p.m., Saturday 8 a.m. - 5 p.m. CPT<br>• Web Site: <a href="http://www.FirstChoicePower.com">www.FirstChoicePower.com</a> |   |   |                  |
| EFL Version: T20659R03   |   |   |                  |

## DOCKET NO. 38147

APPLICATION OF SOUTHWESTERN §  
 PUBLIC SERVICE COMPANY FOR § PUBLIC UTILITY COMMISSION  
 AUTHORITY TO CHANGE RATES §  
 AND TO RECONCILE FUEL AND §  
 PURCHASED POWER COSTS FOR § OF TEXAS  
 2008 AND 2009 §

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APPLICATION OF SOUTHWESTERN PUBLIC SERVICE COMPANY FOR:  
 AUTHORITY TO CHANGE RATES AND TO RECONCILE FUEL AND  
 PURCHASED POWER COSTS FOR 2008 AND 2009

(Filename: SPSToCRFP2010.doc)

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## Attachment B - Bill Comparison

Residential Service

|                             |        | Current<br>Rates | Proposed<br>Rates | Difference   |
|-----------------------------|--------|------------------|-------------------|--------------|
|                             |        | \$ 5.60          | \$ 7.00           | \$ 1.40      |
| Service Availability Charge |        | \$ 0.053350      | \$ 0.061257       | \$ 0.00791   |
| Energy Charge per kWh       | Summer | \$ 0.043930      | \$ 0.054236       | \$ 0.01031   |
| Energy Charge per kWh       | Winter | \$ 0.001461      | \$ -              | \$ (0.00146) |
| PCRf per kWh                |        | \$ 0.000555      | \$ -              | \$ (0.00056) |
| TCRF per kWh                |        | \$ 0.027196      | \$ 0.027196       | \$ -         |
| Fuel Factor per kWh         | Summer | \$ 0.028735      | \$ 0.028735       | \$ -         |
| Fuel Factor per kWh         | Winter |                  |                   |              |

| kWh Level | 100 | 250 | 500 | 750 | 1,000 | 1,500 | 2,000 | 3,000 |
|-----------|-----|-----|-----|-----|-------|-------|-------|-------|
|-----------|-----|-----|-----|-----|-------|-------|-------|-------|

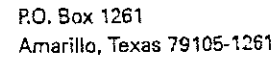
Current Bill:

|                              |          |          |          |          |          |           |           |           |
|------------------------------|----------|----------|----------|----------|----------|-----------|-----------|-----------|
|                              | \$ 10.94 | \$ 18.94 | \$ 32.28 | \$ 45.61 | \$ 58.95 | \$ 85.63  | \$ 112.30 | \$ 165.65 |
| Base Cost (Summer)           | \$ 9.99  | \$ 16.58 | \$ 27.57 | \$ 38.55 | \$ 49.53 | \$ 71.50  | \$ 93.46  | \$ 137.39 |
| Base Cost (Winter)           | \$ 0.15  | \$ 0.37  | \$ 0.73  | \$ 1.10  | \$ 1.46  | \$ 2.19   | \$ 2.92   | \$ 4.38   |
| PCRf                         | \$ 0.06  | \$ 0.14  | \$ 0.28  | \$ 0.42  | \$ 0.56  | \$ 0.83   | \$ 1.11   | \$ 1.67   |
| TCRF                         | \$ 2.72  | \$ 6.80  | \$ 13.60 | \$ 20.40 | \$ 27.20 | \$ 40.79  | \$ 54.39  | \$ 81.59  |
| Current Fuel Factor (Summer) | \$ 2.87  | \$ 7.18  | \$ 14.37 | \$ 21.55 | \$ 28.74 | \$ 43.10  | \$ 57.47  | \$ 86.21  |
| Current Fuel Factor (Winter) | \$ 13.86 | \$ 26.24 | \$ 46.88 | \$ 67.52 | \$ 88.16 | \$ 129.44 | \$ 170.72 | \$ 253.29 |
| Total Cost (Summer)          | \$ 13.07 | \$ 24.27 | \$ 42.94 | \$ 61.61 | \$ 80.28 | \$ 117.62 | \$ 154.96 | \$ 229.64 |
| Total Cost (Winter)          |          |          |          |          |          |           |           |           |

Proposed Bill:

|                              |          |          |          |          |          |           |           |           |
|------------------------------|----------|----------|----------|----------|----------|-----------|-----------|-----------|
|                              | \$ 13.13 | \$ 22.31 | \$ 37.63 | \$ 52.94 | \$ 68.26 | \$ 98.89  | \$ 129.51 | \$ 190.77 |
| Base Cost (Summer)           | \$ 12.42 | \$ 20.56 | \$ 34.12 | \$ 47.68 | \$ 61.24 | \$ 88.35  | \$ 115.47 | \$ 169.71 |
| Base Cost (Winter)           | \$ -     | \$ -     | \$ -     | \$ -     | \$ -     | \$ -      | \$ -      | \$ -      |
| PCRf                         | \$ -     | \$ -     | \$ -     | \$ -     | \$ -     | \$ -      | \$ -      | \$ -      |
| TCRF                         | \$ 2.72  | \$ 6.80  | \$ 13.60 | \$ 20.40 | \$ 27.20 | \$ 40.79  | \$ 54.39  | \$ 81.59  |
| Current Fuel Factor (Summer) | \$ 2.87  | \$ 7.18  | \$ 14.37 | \$ 21.55 | \$ 28.74 | \$ 43.10  | \$ 57.47  | \$ 86.21  |
| Current Fuel Factor (Winter) | \$ 15.85 | \$ 29.11 | \$ 51.23 | \$ 73.34 | \$ 95.45 | \$ 139.68 | \$ 183.91 | \$ 272.36 |
| Total Cost (Summer)          | \$ 15.30 | \$ 27.74 | \$ 48.49 | \$ 69.23 | \$ 89.97 | \$ 131.46 | \$ 172.94 | \$ 255.91 |
| Total Cost (Winter)          |          |          |          |          |          |           |           |           |

|                         |         |         |         |         |         |          |          |          |
|-------------------------|---------|---------|---------|---------|---------|----------|----------|----------|
| \$ Change (Summer)      | \$ 1.99 | \$ 2.87 | \$ 4.35 | \$ 5.82 | \$ 7.29 | \$ 10.24 | \$ 13.18 | \$ 19.07 |
| \$ Change (Winter)      | \$ 2.23 | \$ 3.47 | \$ 5.54 | \$ 7.62 | \$ 9.69 | \$ 13.84 | \$ 17.98 | \$ 26.27 |
| Percent Change (Summer) | 14.36%  | 10.95%  | 9.27%   | 8.62%   | 8.27%   | 7.91%    | 7.72%    | 7.53%    |
| Percent Change (Winter) | 17.06%  | 14.31%  | 12.91%  | 12.36%  | 12.07%  | 11.76%   | 11.60%   | 11.44%   |



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Section No. IV  
Sheet No. IV-3  
Revision No. 14

Page 1 of 2

## ELECTRIC TARIFF

### RESIDENTIAL SERVICE

**APPLICABLE:** To residential customers for electric service used for domestic purposes in private residences and separately metered individual apartments, when all service is supplied at one point of delivery and measured through one kilowatt-hour meter, where facilities of adequate capacity and suitable voltage are adjacent to the premises to be served. Single phase motors that do not exceed 10 horsepower, individual capacity, may be served under this rate. A Residential Service with Electric Space Heating Tariff is available for customers who predominately use electric space heating.

**TERRITORY:** Texas service territory.

**RATE:** Service Availability Charge: \$6.00 per month.

Energy Charge:

\$0.060917 per kWh for all kWh used per month during each summer month

\$0.053084 per kWh for all kWh used per month during each winter month

**SUMMER MONTHS:** The billing months of June through September.

**WINTER MONTHS:** The billing months of October through May.

**FUEL COST RECOVERY AND ADJUSTMENTS:** The charge per kilowatt-hour of the above rate shall be increased by the applicable fuel cost recovery factor per kilowatt-hour as provided in PUCT Sheet IV-69. This rate schedule is subject to other applicable rate adjustments.

**AVERAGE MONTHLY PAYMENT:** Upon request, any residential customer may be billed monthly on a levelized payment plan. A customer's monthly payment amount is calculated by obtaining the most recent twelve months of actual consumption and dividing that amount by twelve, and applying the Company's current rates to the average kWh consumption. The account will be true-up every twelve months. The true-up amount is equal to the difference between the total levelized payments during the previous twelve months and the actual amount billed during the same period.

**CHARACTER OF SERVICE:** A-C; 60 hertz; single-phase 120/240 volts; where available on secondary, three phase 240 volts.

**LINE EXTENSIONS:** The Company will make line extensions in accordance with its standard line extension policy.

*Larry N. Lohg* 17

DIRECTOR, REGULATORY ADMINISTRATION

Preview Mail w/ Toolbar

YAHOO! FINANCE

AMERITRADE

Scottrade

E\*TRADE

TRADEKING

## Utilities thrilled and worried about electric cars

Utilities scramble to upgrade equipment where electric cars may cluster and strain the grid

AP Associated Press

Jonathan Bailey, AP Energy Writer. On Monday November 22, 2010, 10:36 am EST

NEW YORK (AP) -- The first mass-market electric cars go on sale next month, and the nation's electric utilities couldn't be more thrilled -- or worried.

Plugged into a socket, an electric car can draw as much power as a small house. The surge in demand could knock out power to a home, or even a neighborhood. That has utilities in parts of California, Texas and North Carolina scrambling to upgrade transformers and other equipment in neighborhoods where the Nissan Leaf and Chevrolet Volt are expected to be in high demand.

Not since air conditioning spread across the country in the 1950s and 1960s has the power industry faced such a growth opportunity. Last year, Americans spent \$325 billion on gasoline, and utilities would love even a small piece of that market.

The main obstacles to wide-scale use of electric cars are high cost and limited range, at least until a network of charging stations is built. But utility executives fret that difficulties keeping the lights on for the first crop of buyers--and their neighbors--could slow the growth of this new niche.

"You never get a second chance to make a first impression," says Mike Rowand, who is in charge of electric vehicle planning at Duke Energy.

Auto executives say it's inevitable that utilities will experience some difficulties early on. "We are all going to be a lot smarter two years from now," says Mark Perry, director of product planning for Nissan North America.

Electric cars run on big batteries that are charged by plugging into a standard wall socket or a more powerful charging station. A combined 30,000 Nissan Leafs and Chevrolet Volts are expected to be sold over the next year. Over the next two years, Ford, Toyota and every other major automaker also plan to offer electric cars.

Governments are promoting the expensive technology as a way to reduce dependence on foreign oil, cut greenhouse gas emissions and improve air quality. Congress is offering electric car buyers a \$7,500 tax credit and some states and cities provide additional subsidies that can total \$8,000. The Leaf sells for \$33,000 and the Volt sells for \$41,000.

Electric cars produce no emissions, but the electricity they are charged with is made mostly from fossil fuels like coal and natural gas that do. Still, electric cars produce two-thirds fewer greenhouse gas emissions, on average, than a similarly sized car that runs on gasoline, according to the Natural Resources Defense Council.

Driving 10,000 miles on electricity will use about 2,500 kilowatt-hours, or 20 percent more than the average annual consumption of U.S. homes. At an average utility rate of 11 cents per kilowatt-hour, that's \$275 for a year of fuel, equivalent to about 70 cents per gallon of gasoline.

"Electric vehicles have the potential to completely transform our business," says David Owens, executive vice president of the Edison Electric Institute, a trade group.

Nationwide, utilities have enough power plants and equipment to power hundreds of thousands of electric cars. Problems could crop up long before that many are sold, though, because of a phenomenon carmakers and utilities call "clustering."

Electric vehicle clusters are expected in neighborhoods where:

- Generous subsidies are offered by states and localities
- Weather is mild, because batteries tend to perform better in warmer climates
- High-income and environmentally conscious commuters live

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So while states like North Dakota and Montana may see very few electric cars, California cities like Santa Monica, Santa Barbara and Monrovia could see several vehicles on a block. SoCal Edison expects to be charging 100,000 cars by 2015. California has set a goal of 1 million electric vehicles by 2020.

Progress Energy is expecting electric car clusters to form in Raleigh, Cary and Asheville, N.C. and around Orlando and Tampa, Fla. Duke Energy is expecting the same in Charlotte and Indianapolis. The entire territory of Texas' Austin Energy will likely be an electric vehicle hot spot.

Adding an electric vehicle or two to a neighborhood can be like adding another house, and it can stress the equipment that services those houses. "We're talking about doubling the load of a conventional home," says Karl Rabago, who leads Austin Energy's electric vehicle-readiness program. "It's big."

How big depends on the size of the battery in the car, and how fast the car is charged.

When plugged into a standard 120-volt socket, the electric car will draw 1,500 watts. By comparison, a medium-sized air conditioner or a countertop microwave oven will draw about 1,000 watts.

But the car can be charged faster, and therefore draw more power, when plugged into a home charging station. The first Leafs and Volts can draw 3,300 watts, and both carmakers may boost that to 6,600 watts soon. The Tesla Roadster, an electric sports car with a huge battery, can draw 16,800 watts. That's the equivalent of 280 60-watt light bulbs.

A modest home in the San Francisco Bay area that doesn't need air conditioning might draw 3,000 watts at most.

Transformers that distribute power from the electrical grid to homes are often designed to handle fewer than a dozen. Extra stress on a transformer from one or two electric vehicles could cause it to overheat and fail, knocking out power to the block.

The "nightmare" scenario, according to Austin Energy's Rabago: People come home from work on a hot afternoon, turn on the air conditioner and the plasma television, blend some frozen cocktail, start cooking dinner on an electric stove --and plug their car into a home charging station.

An electric vehicle plugged into a standard wall socket poses a different problem. It will put less stress on a transformer, but it could trip a circuit breaker if the circuit serves other appliances. Power would go off in part of the house.

To head off problems, teams of workers at utilities are gathering information from Nissan and Chevrolet, doing customer surveys and looking at buying patterns of hybrid gas-electric cars like the Toyota Prius to try to predict where they might see clusters of electric car buyers.

They are comparing that data with maps of their systems to determine what equipment might need upgrading first in hopes of avoiding blown circuits in the neighborhoods of early buyers.

Utilities also hope to convince drivers to program their cars to charge late at night, when rates are low and most appliances are switched off.

Ted Craver, the chief executive of the parent company of SoCal Edison and a chairman of an industry electric vehicle planning association, says early buyers will likely be tolerant of a few hiccups. At the same time, he says, those are the people utilities should try hard to please. "They turn into promoters," he says.

Replacing a neighborhood transformer costs a utility between \$7,000 and \$9,000, according to SoCal Edison. This is work a utility will often want to do. With the approval of public utility commissions, utilities can add the cost of these kinds of upgrades to the rates they charge customers across their territory.

Utility executives hope the popularity of electric cars will grow as the vehicles' costs come down and as public charging stations are made available at malls and along highways. Momentum will gather faster, they predict, if they minimize the number of home circuits that get blown and neighborhood transformers that get fried over the next two years. But they know there will be problems.

"It's like you're about to have a baby," says Duke Energy's Rowand. "You know it's going to be good, but you also know there's going to be some throw up and some dirty diapers, and you just hope that it's something you are prepared for."

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Austin Energy Rate Review  
White Paper #3:  
Revenue Requirement and  
Cost of Service

Prepared for:  
Austin Energy Rate Review  
Public Involvement Committee

Released: February 23, 2011



An SAIC Company



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## Appendix A

### Austin Energy Abridged Financial Policies

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#### ■ Debt and Debt Service

- Debt shall not exceed the useful life of the asset and in no case shall the term exceed 30 years.
- Debt service coverage of a minimum of 2.0X shall be targeted for the Electric Utility Bonds. All short-term debt, including commercial paper and non-revenue obligations, will be included at 1.0X.

#### ■ Reserve Funding Requirements

- Austin Energy shall maintain either bond insurance policies or surety bonds issued by highly rated (AAA) bond insurance companies or a funded debt service reserve or a combination of both for its existing revenue bond issues.
- Austin Energy shall maintain operating cash equivalent to 45 days of budgeted operation and maintenance expense.
- A Repair and Replacement Fund shall be created and established. Money on deposit in the Repair and Replacement fund shall be used for providing extensions, additions, and improvements to the Electric System. Net revenues available after meeting the General Fund Transfer, capital investment (equity contributions from current revenues), and 45 days of working capital may be deposited in the Repair and Replacement Fund.
- A fund named Strategic Reserve Fund shall be created and established, replacing the Debt Management Fund. It will have three components:
  - An Emergency Reserve with a minimum of 60 days of operating cash.
  - Up to a maximum of 60 days additional cash set aside as a Contingency Reserve.
  - Any additional funds over the maximum 120 days of operating cash may be set aside in a Competitive Reserve.
- A decommissioning trust shall be established external to the City to hold proceeds for moneys collected for the purpose of the decommissioning of the South Texas Nuclear Project.
- Current revenue, which does not include the beginning balance, will be sufficient to support current expenditures (defined as “structural balance”). However, if projected revenue in future years is not sufficient to support projected requirements, ending balance may be budget to achieve structural balance.
- A non-nuclear plant decommissioning fund shall be established to fund plant retirement.

#### ■ Capital Structure

## Appendix A

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- Short-term debt, including commercial paper, shall be used when authorized for interim financing of capital projects and fuel and material inventories. The term of short-term debt will not exceed 5 years.
- Austin Energy shall maintain a quick ratio of 1.50X current assets less inventory divided by current liabilities.
- Capital Projects should be financed through a combination of cash referred to as pay-as-you-go financing (equity contribution from current revenues) and debt, a ratio between 35% and 60% equity contribution is desirable.
- Cash Funding Requirements
  - Ongoing routine, preventive maintenance should be funded on a pay as you go basis.
  - Net Revenue generated by AE shall be used for General Fund transfers, capital investment, repair and replacement, debt management, competitive strategies, and other AE requirements such as working capital.
- General Fund Transfer
  - The General Fund transfer shall not exceed 12% of AE's three-year average revenues, calculated using the current year estimate and the previous two year's actual revenues from the City's Comprehensive Annual Financial Report.
  - Electric rates shall be designed to generate sufficient revenue, after consideration of interest income and miscellaneous revenue, to support:
    - The full cost (direct and indirect) of operations including depreciation;
    - Debt service;
    - General Fund Transfer;
    - Equity funding of capital investments;
    - Requisite deposits of all reserve accounts;
    - Sufficient annual debt service requirements of the Parity Electric Utility Obligations and other bond covenant requirements; and
    - Any other current obligations.

In addition, AE may recommend to Council in the proposed budget directing excess net revenues for General Fund transfers, capital investment, repair and replacement, debt management, competitive strategies, and other AE requirements such as working capital. In addition to these requirements, electric rates shall be designed to generate sufficient revenue, after consideration of interest income and miscellaneous revenue, to ensure a minimum debt service coverage of 2.0X.

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## Appendix B

### City of Austin Rate Covenant Required by Master Ordinance<sup>1</sup>

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The City will fix, establish, maintain and collect such rates, charges and fees for electric power and energy and services furnished by the Electric Utility System and to the extent legally permissible, revise such rates, charges and fees to produce Gross Revenues each Fiscal Year sufficient: (i) to pay all current Operating Expenses; (ii) to produce Net Revenues, after (x) deducting amounts expended during the Fiscal Year from the Electric Utility System's Net Revenues for the payment of debt service requirements of the Prior First Lien Obligations and Prior Subordinate Lien Obligations and (y) taking into account ending fund balances in the System Fund to be carried forward in a Fiscal Year, equal to an amount sufficient to pay the annual debt service due and payable in such Fiscal Year of the then Outstanding Parity Electric Utility Obligations; and (iii) to pay after deducting the amounts determined in (i) and (ii) above, all other financial obligations of the Electric Utility System reasonably anticipated to be paid from Gross Revenues.

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<sup>1</sup> City of Austin, Texas Official Statement, Electric Utility System Revenue Refunding Bonds, Series 2008A, page 6. July 24, 2008. Available online:  
[http://www.ci.austin.tx.us/finance/downloads/os\\_ae\\_rfg\\_08a.pdf](http://www.ci.austin.tx.us/finance/downloads/os_ae_rfg_08a.pdf)



## Strategic Plan – Public Document

### Austin Energy's General Manager's Message



#### *Shaping the Future – Improving the Present*

Today the electric utility industry is being rocked by change, the magnitude and swiftness of which the industry has not witnessed since its birth. This change will completely redefine the electric industry over the course of the next two decades. I believe that utilities that prepare for this change will be part of a new and dynamic energy future. I also believe that those utilities that cling solely to the past, will find themselves rendered obsolete and irrelevant by this change. It is my intention for Austin Energy to be a part of the new energy future and to play an important and significant role in defining it.

This strategic plan represents Austin Energy's re-commitment to strategic thinking and planning and it signifies our commitment to the future. With it, we are preparing to meet the significant challenges facing the industry: continued deregulation pressures, energy resource availability, distributed generation technologies, and concerns about system reliability.

While these challenges are significant and the solutions complex, I believe that Austin Energy is well positioned for the future. We are financially strong; we serve a vibrant city; we have talented and dedicated employees; we have cost effective traditional generation resources; and we possess significant experience in the development of non-traditional energy resources such as conservation, renewable energy and distributed generation. These attributes will not only allow us to address the many challenges we face but I firmly believe they will also allow us to explore and pursue the many opportunities that will surface as our industry evolves.

For over one hundred years, Austin Energy has provided valuable energy services to the City of Austin and the surrounding community. While building upon that history of success, our focus on service to our city and community should not change. It is at the core of what we are and the essence of what we do. I believe that our dedication to community and public service is captured in our vision and mission statements:

### Vision

"We want Austin to be the *most livable* community in the country."

### Mission

"To deliver clean, affordable, reliable energy and excellent customer service."

The attached strategic plan establishes ambitious objectives that will help position Austin Energy for future success. Achieving these objectives will require dedication, cooperation and commitment. I believe that as we position ourselves to meet those objectives we must hold on to the essential principles that define our relationship with our community. I am proposing the following principles to guide us as we move into the implementation of Austin Energy's Strategic Plan:

- A commitment to fully support and implement the energy directives embodied in the City Council resolutions of August 28 & September 25, 2003.
- A commitment to prudently explore solar and other emerging energy technologies that are in keeping with the City Council's energy directives.
- A commitment to annually review the veracity of our planning assumptions and objectives in light of the rapidly changing utility environment.
- A commitment to support economic development that creates new opportunities to contract with existing local vendors, supports efforts to attract new businesses to Austin, and advances the development of a local clean energy industry.
- A commitment to reliable electric service and affordable rates.
- A commitment to always conduct our business with the highest ethics and in a way that exhibits the utmost respect for our customers, community, employees, and the environment.

I am also committed to encouraging community involvement in our future. Austin Energy is a national leader in progressive and innovative energy programs. This, in large measure, is due to the kind of community that is Austin. We are a community that values and protects our environment. We are also a community that possesses a considerable sustainable energy expertise. I intend to utilize that base of expertise by inviting local experts into an ongoing conversation aimed at exploring and uncovering energy solutions that are in keeping with this community's environmental values and electric service needs.

As we pursue our future together, I believe it is important to strike a balance. As we explore and deploy non-traditional energy resources, we must maintain current energy services at levels that meet or exceed our customers' expectations. The balance that we must achieve is to neither sacrifice our future for the sake of the present nor sacrifice the present and lose the means to achieve the future.

Juan Garza  
General Manager  
December 4, 2003

| Public Power<br>Ratio/Performance Measure   | Austin Energy<br>Financial Policy   |
|---|---|
| Debt Service Coverage (DSC) (x)             | Debt service coverage at least 1.50x  |
| Days Cash on Hand                           | Policy 45 days operating cash.<br>Policy Strategic Reserve with 60 days operating needs for Emergency Cash Reserve plus an additional 60 days for Contingency Cash Reserve. |
| Operating Margin (%)                        | Policy under consideration  |
| Net Margin (%)                              | Policy under consideration  |
| General Fund Transfer (GFT) as % of Revenue | General Fund Transfer within range of 6.6% to 9.1% of three year average revenue  |
| Variable Rate Debt/Total Capitalization (%) | Variable debt policy limits max to 20%  |
| Net Plant/Net Debt (x)                      | Policy under consideration  |
| Equity/Total Capitalization (%)             | Debt to equity ratio of 62% or less   |

While the objective to achieve an "AA" (S&P) Credit Rating by 2010 on Austin Energy's separate lien revenue bonds is a stretch goal, Austin Energy believes it is the best overall measure of the success of our risk management approach.

The fifth and final objective is the Renewable Portfolio Standard that is addressed by *Austin Energy's Ten-Year Energy Resource Plan*. Under this objective Austin Energy will achieve a Renewable Portfolio Standard of 20% by 2020.

The purpose of *Austin Energy's Ten-Year Energy Resource Plan* is to provide a framework for future actions to ensure that Austin Energy provides reliable electric service at affordable prices to its customers. The Austin City Council established strategic energy policies that position Austin to remain a national leader in the development and use of clean energy. Looking forward, Austin Energy expects its obligations to provide electricity to its customers will continue to grow, while some of its available resources will diminish significantly. This will cause the gap between demand and supply to grow over time. Measures need to be taken to close the gap and a number of diverse strategies are proposed.

Austin Energy's most recent *Ten-Year Energy Resource Plan* features a number of significant changes from all previous plans. These changes are:

1. The Holly Power Plant will close in December 31, 2007 rather than 2009.
2. Investment in renewable energy resources will be much more aggressive, in order to meet the target of achieving 20% of Austin Energy's energy supply from renewable resources by 2020.
3. Investment in energy efficiency and peak load management to meet the target of achieving 15% of Austin Energy's energy supply from energy efficiency efforts by 2020.
4. No specific thermal generation projects are in the current plan, as there is no expected need for additional capacity until 2008.